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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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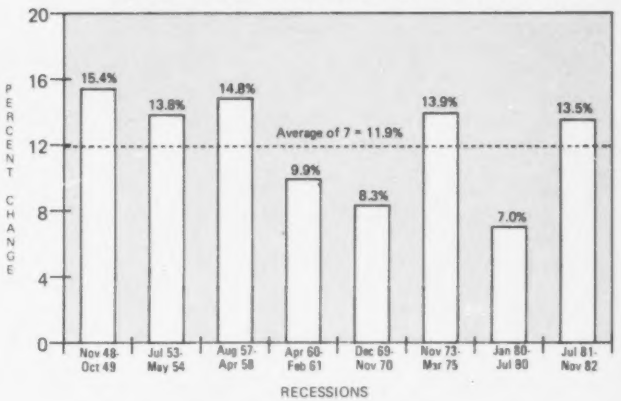
The Leading Indicators Dip . . .

Although the Commerce Department's index of leading economic indicators fell in August after a year of strong monthly gains, the modest decline does not suggest that the business recovery is faltering. To the contrary, the 0.1 percent month-over-month drop in the index can even be viewed as a good sign, indicating a slowing of economic activity to a more sustainable pace in the months ahead. A moderate deceleration of economic activity from its torrid second-quarter pace may well ensure that this recovery proceeds well into 1984 since it should forestall both the emergence of upward pressures on interest rates and a reignition of inflation expectations.

To be sure, August's decline in the leading indicators, which tend to foreshadow future business trends, does represent a reversal of its behavior over much of the past year—when it increased by an average monthly rate of just about 1½ percent. But while the overall index fell, its significance is uncertain. This is because six of the ten reported components still registered gains, while two of the components which contributed to the overall drop—stock prices and building permits—were negatively affected by last summer's increase in interest rates. Already the decline in stock prices has begun to reverse itself and the drop in homebuilding permits should level off as mortgage interest rates again drift lower. So, too, the rise in initial claims for state unemployment insurance, another factor contributing to the August decline, has ceased.

In fact, the performance of the leading indicators during this recovery actually provides further evidence that it is not about to derail anytime soon. The overall index rose 13.5 percent during the first nine months of this recovery, well above the average 11.9 percent gain posted during the first three quarters of previous postwar recoveries (see chart). During the first nine months of the 1980-81 upturn, in contrast, the index rose only seven percent, and never did return to the peak level reached in the preceding expansion. This time around, the index surpassed its previous peak by the fourth month of recovery, and now stands 5.9 percent above it.

INDEX OF LEADING INDICATORS IN CYCLICAL PERSPECTIVE:
% CHANGE DURING FIRST NINE MONTHS OF RECOVERY



. . . But Factory Orders And Inventories . . .

Indeed, several signs suggest further growth—albeit at a slower pace. One, a monthly survey of the purchasing managers of 250 industrial companies, reported that production continued to increase in September, while deliveries from suppliers slowed—indicating that order backlogs are growing. Another was the reported 1.1 percent month-over-month rise in new factory orders in August, an increase that would have been more than twice as large had not a sizable decline in orders for defense-related capital goods occurred. Other than the decline in this volatile component of factory orders, the gains were substantial, and shared by almost all major industries.

The most positive sign was that new orders for nondefense capital goods, a key barometer of future plant and equipment spending, rose by 6.4 percent in August, month-over-month. Their value now stands more than 20 percent above August, 1982 levels. As a result, increased factory orders are even

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beginning to feed back into the long-depressed machine tool industry. In August, new orders for machine tools, which are used to shape most parts of autos, machinery and household appliances, were 59 percent above their year-ago levels.

In response to increasing orders, manufacturers have finally begun to rebuild inventories. Following an increase of 0.3 percent in July, factory inventories rose another 0.7 percent in August—the largest one-month increase since September, 1981. This, in turn, suggests that at long last, the protracted and steep decline in factory stocks may be over. And if a modest inventory build-up is under way, this swing in inventories will be one of the major contributors to real economic growth in the latter half of 1983.

. . . Suggest Further Growth Ahead

To be sure, while inventories normally fall during recessions as businessmen attempt to better align stocks on hand with fading sales volume, what was unusual about the inventory correction this time around was its duration and magnitude. The reduction in stocks was by far the most prolonged of any postwar downturn—lasting six straight quarters—and the largest in size—totaling an inflation-adjusted $14.6 billion, or 4.2 percent between December,

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 9/28/83	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov't and Agencies Owned Outright & RPs	162.748	+ 4.668	+21.998
Loans to Depository Inst.	1.281	– .828	+ .528
Float	1.112	+ .163	– .642
Total Reserve Bank Credit	173.611	+ 4.511	+20.862
Treasury Deposits with Federal Reserve Banks	14.157	+ 6.982	+ 9.668
Currency Outside Banks	142.752	– 2.278	+12.175
Member Bank Reserves:			
Required	37.908	– .188	– 2.358
Excess (Deficiency)	.422	+ .105	+ .137
Total Reserves Held	38.330	– .083	– 2.221
Net Borrowed Reserves	.113	– .973	– .119
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	110.279	+ .670	+12.340

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1	518.3	+ 4.8‡	+ 11.8‡
M2 (August '83)	2,136.9	+ 7.8	+ 12.3
M3 (August '83)	2,528.5	+ 8.4	+ 9.1
Domestic Nonfinancial Debt (2nd Q'83)	4,939.1	+ 11.7	+ 10.3

†Seasonally adjusted. * Seasonally adjusted annual rate. ‡ Four-week moving average.

New York Money Market

Offering Rates 10/7/83	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	8.50%	8.70%	8.85%
* Federal Agencies	8.85	9.50	9.85
* Project Notes–Taxfree (46% Taxable Equivalent)	9.44	9.63	10.19
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	9.13	9.25	9.75

‡Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	8.88%	Nov.	8.95%
15- 29 days	9.00	Dec.	8.95
30- 59 days	8.88	Jan.	8.95
60- 89 days	8.88	Feb.	8.95
90-179 days	8.75	Mar.	8.95
180-239 days	8.75	Apr.	8.90
240-270 days	8.75		

‡Industrial Paper–Prime			
30- 89 days	9.00%	†Federal Funds Effective Rate	9.40%
90-120 days	9.00		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'83	$ 3,272	$ 3,172	$ 3,070
Gross National Product (1972 Dollars)*	2nd Q'83	$ 1,525	$ 1,490	$ 1,489
Percent Change, Annual Rate	2nd Q'83	9.7	2.6	0.9
Change in Consumer Prices (new series)*	Aug '83	4.8%	4.8%	3.6%
Change in Producer Prices*	Aug '83	4.8%	1.2%	6.0%
Civilian Employment (Thousands of Persons)†	Sep '83n	101,945	101,563	99,543
Unemployment as % of Civilian Labor Force†	Sep '83n	9.3%	9.5%	10.2%
Personal Income*	Aug '83	$ 2,755	$ 2,749	$ 2,587
Leading Indicators Composite Index (1967=100)†	Aug '83	158.1	158.3	136.1
Industrial Production Index (1967=100) †	Aug '83	150.5	149.2	138.4
Net Change in Consumer Installment Credit †	Jul '83	$ 4.84	$ 4.41	$ 0.84
U.S. Merchandise Trade Balance †	Aug '83	–$ 7.19	–$ 6.36	–$ 6.53
Plant and Equipment Expenditures*	4th Q'83	$326.73(a)	$313.04(a)	$303.18
Private Housing Starts (Thousands of Units)*	Aug '83	1,935	1,785	1,046
New Construction Expenditures*	Aug '83n	$ 276.1	$ 269.5r	$ 231.6
Total Business Inventories †	Jul '83	$ 506.7	$ 505.5	$ 521.1
Total Business Sales †	Jul '83	$ 372.3	$ 373.6	$ 347.7

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

1981 and June, 1983. This is because businesses adjusted their stocks not only in response to slower sales during the past recession, but also in response to lower inflation rates and higher financing costs. The abrupt slowing of inflation, accompanied by lofty interest rates, made it costly to keep high levels of inventories on hand, forcing businesses to reduce stocks sharply.

In coming months, the replenishing of depleted inventories will undoubtedly provide substantial upward momentum to the economy. For now, however, low stock levels may actually be dampening sales. Take, for example, the domestic automakers. They blame unusually tight dealers' inventories for lower-than-expected sales performance in August and September. Whereas a 60- to 65-day level is considered normal for the industry, it had dropped as low as 48-days' supply in July, and even now is equal to just about a 50-day supply. This lack of inventories was partially responsible for the slowing of sales of domestically-produced cars in recent months. They fell from a seasonally adjusted 7.4 million unit annual rate during July's final ten-day selling period to seven million units in September. And although these supply shortages have prompted Detroit to speed up production, automakers do not expect them to disappear until yearend. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (9/21/83)	92,335	– 229	–56,505
New York City (9/21/83)	21,020	– 746	–17,778
Commercial Paper (9/21/83)	177,825	+ 2,494	– 3,704*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/21/83)	214,634	+ 1,102	– 2,897
New York City (9/21/83)	57,934	+ 143	– 3,641

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/21/83)	511,395	+ 2,136	+10,873
New York City (9/21/83)	116,373	+ 423	– 2,040

Financial Markets

	Friday 10/7/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.90%	– .10	+ 1.29
180-Day Bills†	9.30	– .10	+ .60
Longest Bills†	9.68	– .12	– .52
Recent Issues:			
10⅞s 9/30/85	10.40	– .10	
11⅛s 9/30/87	10.90	– .05	
11⅞s 8/15/93	11.32	– .08	
12s 8/15/13	11.38	– .07	
Municipals:			
Bond Buyer–20 Bond Index* (10/6/83)	9.49%	+ .03	– .26
Blue List Total ($ Million)	$1,403	+ $ 10	+ $545
30-Day Visible Supply ($ Million)	$2,410	+ $105	– $136
Total	$3,813	+ $115	+ $409
Corporates:			
Moody's Aa Composite (10/6/83)	12.43%	– .08	– .74
30-Day Visible Supply ($ Million)	$1,375	+ $768	+ $565
Stocks:			
Dow-Jones Averages:			
Industrials	1,272.15	+ 39.02	+ 285.30
Transportation	586.70	+ 25.12	+ 200.91
Utilities	138.97	+ 4.29	+ 18.72
65 Stocks	506.37	+ 17.40	+ 127.37
Standard and Poor's 500 Stocks	170.80	+ 4.73	+ 39.75
N.Y.S.E. Composite Index	98.72	+ 2.48	+ 23.72
N.Y.S.E. Avg. Daily Vol. for Week (000's)	98,356	+20,712	+ 468

* 46% Taxable equivalent 17.57%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 10/7/83	Week Ago
Overnight	9.38%	9.25%
1 month	9.31	9.38
3 month	9.44	9.50
6 month	9.50	9.69
1 year	9.81	10.00
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	11.40%	11.50%
Long Term (7 to 15 yrs.)	11.50	11.60

FOREIGN EXCHANGE SPOT RATES

New York Opening (10/7/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01901	52.60
Canada	.8129	1.2302
Denmark	.1071	9.3355
France	.1764	7.9085
Germany	.3882	2.5760
Italy	.0006371	1569.50
Japan	.004321	231.43
Mexico	.006472	154.50
Netherlands	.3455	2.8945
Switzerland	.4784	2.0903
U.K.	1.4995	.6669

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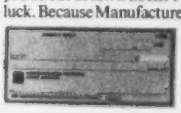

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